HOW DONALD TRUMP BOUGHT ATLANTIC CITY

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JANUARY 1988 $3.00

BUSINESS MONTH

BOEING'S IN THE DOGFIGHT OF ITS LIFE

Boeing's Frank Shrontz: Upstart Airbus is the enemy

SPECIAL REPORT:

WHAT 609 AMERICAN CEOs ARE THINKING

John Kenneth Galbraith
Ben J. Wattenberg
Walt W. Rostow
Robert Boyden Lamb

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JANUARY 1988

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THEIR DEEPEST CONCERNS

More than 600 chief executives gave their views on politics, competition, takeovers, cutbacks, weaknesses, strengths, the future, the past and a great deal more.

BY BEN J. WATTENBERG

You don't hear much about "industrial policy" these days.

Today's buzzword is *competitiveness.* And while the word is as vague and fuzzy as *industrial policy* and other earlier cure-all words, there is an important distinction. The key player in the competitiveness chase, unlike earlier concepts, is not the government, nor economists, nor planners. It is the businessman. We are told that it is the chief executive officer—dynamic and driven—who must innovate, streamline, "down-size," upgrade and stave off foreign meanies. He'd better do it, we are informed, lest we turn into a service economy with everyone flipping hamburgers for everyone else, an economy where our children will be worse off than we are.

Will the chief executive be our savior? I don't know. Still, this much should be said: If business needs reform, it's likely that chief executives are going to have to do the job. And, if the reform is happening, we ought to know how goes the battle.

That's why the BUSINESS MONTH report "Insight—The American CEO," presented in these pages, is so important. It is the most comprehensive survey of chief executives of large American corporations ever taken. The marketing-research firm of Yankelovich Clancy Shulman interviewed 609 chief executives in person, typically for about an hour. (For the survey's methodology, see page 29.) Luckily, the interviewers were in the field from late September 1987 to early November, almost perfectly straddling the stock-market earthquake of October 19, and allowing us to see any attitudinal shifts that took place.

The survey covered the major issues facing chief executives: general business and political concerns; their choices for President in 1988; their worries about conditions in the work place, their successors and their children. Here are some of the most dramatic findings:

Three of their own firing-line problems come from our own government and system.

☐ The number-one threat to American business, spontaneously mentioned by 35 percent, is foreign competition. (In an unaided question, typically, any response above 15 percent to 20 percent is high.)

☐ American companies are too short-term oriented, according to 89 percent.

☐ About half believe we should raise taxes to cut the budget deficit.

☐ While 40 percent expect George Bush to be elected President in 1988, they would prefer Robert Dole to Bush.

☐ More than two out of five (41 percent) think it is inevitable that the United States will have a service economy.

☐ Almost 90 percent think that criticism of business ethics is at least somewhat justified.

☐ More than 50 percent expect AIDS to be a serious problem in the work place in the next two to three years.

As important as—perhaps more important than—the individual findings is the insight the survey provides into the chief executives' state of mind regarding their current situation. They are upbeat. They agree on why American business has been losing the competitiveness struggle. They know what they must do about it. They've already started. They know what help they need from the government. They believe they will prevail.

The battle ahead will not be easy: What they see is stress and success.

To understand survey research, there is one good general rule to follow: Separate what people think about issues they personally know about from what people think about issues they don't know much

WHAT THEY'RE THINKING

SHORT-TERM PLANNING

■ "Japan is kicking our butts. They don't have to worry about the immediate. We ought to sacrifice some of today's profits for tomorrow's profitability."

■ "American businesses—public corporations especially—have become myopic about quarterly results under extreme pressure from investors. They can't think long-term for fear of the economic impact on their business."

■ "Our plants are worn out; the auto industry is a classic example and the textile industry another. We are after the current dollar and do not pour it back into our businesses as we should. Our plants are vastly inferior to many of our foreign competitors'."

LONG-TERM PLANNING

■ "It would be better if companies were to report their earnings only once a year. Otherwise, I don't think anything can be done."

■ "Management rewards should be based on long-term success."

■ "We threw away the people who built our industries and replaced them with MBAs from Harvard. Industry is shortsighted in paying MBAs more than engineers. The greatest shortage in America today is in manufacturing people."

■ "I would have a very high tax on trading stocks in under three years and give tax breaks for R&D."

■ "Don't tie executive compensation to the performance of stock and corporate earnings."

ACCOMPLISHMENTS

■ "I've turned staff morale around 180 degrees to a high point. People now like what they are doing and feel like winners."

■ "I've managed this company through a merger, kept it together and kept morale up."

■ "I took the company private in a leveraged buy-out and, when the market changed, I changed the product mix and kept sales and profits up and increasing."

■ "I've increased the size of the company fourfold."

about. For example, most Americans think our schools are a big problem, but an almost equally large number think that schools in their own neighborhoods are just fine. The statistic registering disapproval is politically very important—even though it is reporting a perception of a situation these people know about secondhand. But if you want to assay how our schools are doing neighborhood by neighborhood, firsthand estimation, the other datum, which yields a good fix on reality, is much more relevant. While both reality and perception influence the way people act, in my opinion firsthand observations are usually more informative than secondhand views.

Nowhere is the difference between firsthand and secondhand more relevant than in interpreting the chief executives' appraisals of the challenges and the future of "American business" on the one hand versus the challenges and the future of "your company" on the other. It's not that the chief executives don't know business, it's simply that they know a damn sight more about their own companies. And if we're looking for reality, it is the sum of those views about their own companies that makes up a large part of the totality of American business. Economists take note.

For example, American chief executives are mildly confident about that amorphous entity "American business." When asked, "How would you describe your overall confidence in American business being able to meet the challenges it faces?" (on a scale of one to six with six as "extremely confident" and one as "no confidence at all"), barely more than half (51 percent) rated their confidence at five or six—a "most confident" response, according to Yankelovich Clancy Shulman.

But what happens when the focus tightens and the same question is asked not about American business, but about "your company"? Eighty percent voted "most confident." Quite a shift. The optimists go up by three-fifths. Thus: About their own companies, a subject that CEOs know more about than anyone else—more than economists, more than the chairman of the Fed—they are bullish indeed.

A similar "American business" versus "my company" split opens up over foreign competition. When asked how the United States is doing vis-à-vis foreign competition, the chief executives are gloomy. More than half (55 percent) say American business is losing ground to foreign competitors, 18 percent think it is gaining and 27 percent believe it is holding its own.

But when asked, "Is your company currently doing enough to stay competitive in world markets?" the results are different. Half say yes, 20 percent say no and 30 percent don't know. Down in the trenches, where the field commanders are waging the fight, where battles are won and lost, we are getting a battlefield communiqué that says things are going rather well.

And when the focus is long-range, a pretty solid optimistic consensus forms about the global business scene, even on the "American business" axis. The chief executives were asked: "In the year 2000, will American business be stronger globally?" Their response: Fifty-three percent say that it will be stronger, 29 percent think we will be weaker and 17 percent believe it will be the same.

What's the problem? Another perception-reality revelation. When given a card listing "Issues Seen As Serious Threats To American Business," the top two threats are those abstract, amorphous ogres, the "federal deficit" and the "trade deficit." CEOs rate them as the top threats, in that order, each at high levels—69 percent for federal and 63 percent for trade.

> *'They back their people 100 percent. We pull the rug out when we see temporary losses.'*

But when roughly the same question is asked, open-ended, without a list of possibilities, we find that the number-one threat is neither of the deficits. It's something chief executives have more intimate knowledge of: "foreign competition."

When asked about the most serious threats to "your company," the federal deficit returns to first place, with 25 percent mentioning it. But the next five closely bunched worries are all of a nonabstract nature: "government regulation," "economic recession," "lawsuits," "foreign competition" and "U.S. tax policy." These are the day-to-day *external* problems that are seen, by chief executives, to afflict chief executives. These are not theoretical concerns; they are plagues that seem personally visited upon chief executive officers by persons, nations and conditions out to get them and their companies—namely regulators, tax men, foreigners, even the business cycle itself.

Note that three of their own firing-line problems come from our own government and our own system: regulation, lawsuits and tax policy. That's an important find-

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ing seven years after the advent of an administration that was designed to stop that sort of stuff.

A fourth worry—recession—is a perennial. Before October 19, chief executives said overwhelmingly—by 63 percent to 22 percent—that there would be no recession in calendar year 1988. But of those interviewed after October 19, 45 percent expected a recession, versus 43 percent who didn't. We shall see.

I think the fifth nonabstract concern, "foreign competition," is the single issue that suffuses almost every line in this survey. It is the root of the abstract concerns about trade and budget deficits. It is the root of the operational government/system problems cited, which make it harder for us to compete. As we shall see, it is the root of the changing role of the chief executive in this turbulent time. It is, of course, only a reformulation of the great buzzword in the sky: "competitiveness." And the survey yields some front-line views about: What we should do about it.

What? The tip-off, I think, is the resounding, near-unanimous answer to this question: "Is American business too short-term oriented?" Almost 90 percent of the chief executives (89 percent) said yes.

Chief executives see two big and two lesser ways in which this business myopia hurts. The 89 percent who believe that business is too short-term oriented were asked an open-ended question: "In what ways is this short-term orientation impacting American business?" More than half (52 percent) replied that it resulted in no long-term planning or not looking toward the future, 40 percent said it resulted in a failure to invest in research and development, 29 percent said it made them too concerned with quarterly performance and 23 percent said that it resulted in a lack of capital investment.

Who's at fault for this short-term thinking? The CEOs distribute the blame. The most common idea, as one put it: "Everyone is working for the benefit of financial analysts—short-term instead of looking ahead." Another advises: "There needs to be a diminution of involuntary takeovers and of the desires of shareholders to have immediate rewards." There are not only villains apparent, there is a role model, says one: "The Japanese system is long-term. They back their people 100 percent; we just pull the rug out when we see temporary losses."

American chief executives have some definite ideas about what to do about business' shortsightedness. Here the survey provides a fascinating glimpse into the life of the American chief executive—personal and professional. There is change in the air—some already accomplished, plenty more on the way. Viewed as a totality, it seems like a massive—and probably successful—assault on the problems we face.

When asked what activities are already receiving more time and attention than in the past, 69 percent said strategic planning, 61 percent controlling costs, 54 percent marketing and 49 percent profit growth. These same activities, in the same order, are expected to receive more time and attention over the next two years.

American chief executives got worried—and they acted. Long-term planning a problem? Spend time on it. Products not competitive? Control costs, stress marketing. Pressure from analysts and raiders? Emphasize profits. One is reminded of the classic football-coach lecture: "Fundamentals. Fundamentals. Fundamentals."

Like the football coach, the chief executive not only has to master fundamentals, but must seek to control events. There is evidence that this has happened. When asked how their ability to control the company has changed compared with five years ago, 49 percent say it has increased, 15 percent say it has decreased and 35 percent say it has stayed the same.

Like the football coach, the chief executive is in a tough game, where cold and unsentimental decisions have to be made by men who are not necessarily either. One of the toughest calls that chief executives have made in recent years has been "down-sizing." The magnitudes have been, simply put, incredible. Of our sample, 39 percent of the chief executives report scaling down their companies in the past two years. It has been most prevalent among larger companies (48 percent) and among manufacturing companies (46 percent). And it's not over: Of the chief executives of large companies that have downsized, 50 percent say there will be more to come in the next two years.

The cutbacks created stress for them as managers. About half of the chief executives involved in down-sizing reported managerial problems: morale, firings, disruptions and retraining.

The stress was also personal. When asked about their "most stressful" business situation, many cited down-sizing. "Laying off over 100 people was very painful," said one CEO. Another explained that "Termination . . . wasn't due to the employee not being productive or his quality of work, so it was difficult."

And down-sizing created a wrenching conflict over values. The BUSINESS MONTH survey asked respondents what they regarded as the "greatest accomplishment in your job." In first place was "company growth." It is clear, from this and other responses, that growth is still the

HOW THE SURVEY WAS DONE

Sitting at the pinnacle of vast organizations, chief executives have unique views of the economy, business and management. Yet their private opinions about these subjects have never been charted on a scientific basis.

Toward the end of 1987, BUSINESS MONTH magazine commissioned Yankelovich Clancy Shulman to interview 600 leaders of large corporations. The object of the confidential survey was to create a profile of chief executives' attitudes about the challenges facing American business in general and their companies in particular.

Yankelovich Clancy Shulman deployed 75 interviewers, primarily retired executives and professionals, who met with corporate leaders in their offices. During hour-long discussions, conducted between September 21 and November 7, the executives were asked approximately 100 questions. About half of the interviews were completed before the October 19 stock-market crash and half afterward.

The survey sample of 609 chief executives was chosen from a list of 9,000 companies with at least $50 million in revenues. The potential sampling error is plus or minus 4 percent.

Of the 609 executives interviewed, 133 were of companies with revenues in excess of $500 million, 291 of companies with revenues between $100 million and $500 million and 185 of companies with revenues between $50 million and $100 million. Companies with more than $300 million in revenues were overweighted in the sample to offset their small number in the business population.

The sample group was also divided approximately evenly between leaders of manufacturing companies (303) and service companies (306). The firms were located all over the country, with 46 percent in the Northeast, 26 percent in the North Central region, 17 percent in the South and 11 percent in the West. Publicly held companies accounted for 56 percent of the sample, privately held for 44 percent.

BUSINESS MONTH intends to survey the same number of chief executives annually. From these ongoing studies, we expect to develop an authoritative record of evolving attitudes and opinions of chief executive officers.

THE QUESTIONS AND THE ANSWERS

What are the biggest threats to American business?
Foreign competition 35.5%
Federal deficit 29.6%

Of a list of suggested concerns, which are the most serious threats?
Federal deficit 68.5%
Trade deficit 62.9%
Foreign competition 55.0%
Lawsuits 42.9%
Low R&D spending 42.4%

How confident are you of American business meeting its challenges?
Extremely 8.2%
Very 42.4%
Moderately 39.2%
Somewhat 8.4%
Little 1.5%

Should we raise taxes to cut the budget deficit?
Yes 49.3%
No 50.4%

If yes, what types of taxes should be raised?
Income tax 48.7%
Corporate taxes 37.3%
Value-added tax 20.7%

How is the United States doing vis-à-vis foreign competition?
Losing 54.7%
Gaining 18.2%
Holding its own 26.6%

Which industries are responding best to foreign competition?
Computers 38.6%
Automobiles 26.8%
Aircraft 19.0%

Which industries are responding worst to foreign competition?
Automobiles 44.0%
Steel 41.1%
Consumer electronics 16.7%

In the year 2000, will American business be stronger globally?
Stronger 52.5%
Weaker 28.9%
The same 17.2%

What should companies do to make themselves more competitive?
Learn more about world markets 24.1%
Quality control 23.2%
Increase efficiency/cut costs 23.0%
Raise productivity 20.5%

Should we retaliate against countries that bar U.S. goods?
Yes 49.3%
No 44.2%

Should Congress limit foreign investment in American companies?
Yes 15.4%
No 82.9%

Should companies cooperate more with foreign investors?
Yes 45.0%
No 18.9%
Already are cooperating 32.2%

Should companies work harder to learn from foreign industry?
Yes 94.3%
No 5.7%

Should the federal government do more to stimulate R&D spending?
Yes 83.1%
No 15.6%

What should the government do for R&D?
More tax incentives 66.7%
Grants/funding for research 12.0%
Relax antitrust laws 5.4%

What is the probability that a Democrat will be elected President in 1988?
Less than a 50% chance 41.4%
50% chance 27.4%
More than a 50% chance 29.4%

What are the implications of a Democratic President for business?
Raise taxes 37.1%
Hurt business 27.8%
Spend more on social programs 23.3%

Who is the most likely winner of the 1988 Presidential election?
Bush 42.7%
Dole 23.2%
Cuomo 8.0%

Who is your personal choice for President in 1988?
Dole 31.7%
Bush 30.2%
Kemp 5.1%

Can the private sector fill the gap created by cutbacks in social spending? Should Congress spend more on social programs?
Private sector can fill the gap 27.3%
Government should spend more 16.4%
Government should spend less 45.3%

Is American business too short-term oriented?
Yes 89.2%
No 10.5%

How justified is the criticism of business ethics?
Totally justified 15.4%
Somewhat justified 74.5%
Unjustified 8.5%

Have corporate raiders helped the economy?
Hurt 54.0%
Helped 24.0%
Depends on situation 19.0%

Is it right for companies to restructure to fend off unfriendly takeovers?
Yes, it is right 26.3%
No, it is wrong 50.7%
It depends 21.8%

Should Congress curb takeovers?
Yes 44.2%
No 54.7%

Has deregulation been a success?
Yes 21.3%
No 4.3%
A mix of successes and failures 73.4%

For which industries has deregulation succeeded?
Trucking 46.8%
Airlines 45.6%
Financial services 27.6%

For which industries has deregulation failed?
Airlines 39.2%
Telephone 24.0%
Financial services 6.9%

Is it inevitable that the United States will have a service economy?
Yes 41.2%
No 55.8%

Can the United States flourish as a service economy?
Yes 33.5%
No 63.4%

In the next three years, will the power of labor unions increase?
Increase 10.0%
Decrease 51.2%
Remain the same 38.4%

■ **Which activities are getting more time in your company than they did in the past?**
Strategic planning 69.3%
Cost control 60.6%
Marketing 54.0%

■ **Which activities will require more time in the next two years?**
Strategic planning 47.9%
Cost control 38.6%
Marketing 36.9%

■ **Are you more in control of your organization than you were five years ago?**
Yes 49.3%
No 15.4%
The same 34.8%

■ **Has your company "down-sized" in the past two years?**
Yes 38.9%
No 60.6%

■ **If so, do you intend more down-sizing in the next two years?**
Yes 35.0%
No 63.3%

■ **If not, do you intend to down-size in the next two years?**
Yes 6.0%
No 87.8%

■ **In the next three years, will you shift any operations overseas?**
Yes 7.7%
No 75.7%
Don't know 16.6%

■ **Which country outside the United States is the most attractive for a company like yours?**
United Kingdom 10.2%
Canada 6.9%
Mexico 5.4%

■ **Which state is the most attractive for a company like yours?**
Texas 11.3%
North Carolina 6.2%
Florida 5.7%

■ **Do you personally spend time in Washington lobbying?**
Yes 38.6%
No 60.9%

■ **Do you feel that the time you spend lobbying is productive?**
Extremely 13.6%
Very 23.8%
Somewhat 56.6%
Not really 4.3%
Not at all 1.7%

■ **Are you more in the press limelight these days than you have been in the past?**
Yes 62.7%
No 36.8%

■ **Do you enjoy the added press attention?**
Yes 48.7%
No 45.0%

■ **How satisfied are you with your company's work force today?**
Very satisfied 44.3%
Somewhat satisfied 45.8%
Somewhat dissatisfied 9.4%
Very dissatisfied 0.3%

■ **Is recruiting your work force today easier than in the past?**
Easier 32.8%
More difficult 47.3%
About the same 19.0%

■ **How satisfied are you with your company's middle management?**
Very satisfied 41.9%
Somewhat satisfied 47.6%
Somewhat dissatisfied 8.7%
Very dissatisfied 1.8%

■ **Is recruiting middle management easier today than in the past?**
Easier 33.8%
Harder 39.4%
About the same 24.6%

■ **Which issues worry you the most in running your company?**
Federal deficit 28.2%
Government regulation 20.5%
Economic recession 20.4%
Lawsuits 16.7%
Foreign competition 15.1%

■ **How confident are you that your company will be able to meet the challenges facing it?**
Extremely 32.2%
Very 49.1%
Moderately 15.1%
Somewhat 2.5%
Little 0.7%

■ **Is your company doing enough to stay competitive globally?**
Yes 49.6%
No 19.5%
Don't know 30.9%

■ **How serious a problem are drugs and alcohol in your company?**
Very serious 3.1%
Somewhat serious 16.1%
Slight 54.0%
No problem 25.8%

■ **In the next three years, will drug and alcohol problems increase?**
Increase 19.4%
Decrease 17.7%
Remain the same 62.1%

■ **How serious a work-place problem will AIDS be in the next three years?**
Very serious 17.4%
Somewhat serious 35.5%
Slight 31.0%
No problem 13.5%

■ **Has your company established a policy with respect to AIDS?**
Yes 14.0%
No 85.1%

■ **Is it better to stay within the corporation for a successor?**
Stay inside 68.3%
Go outside 3.4%
It depends 27.1%

■ **How much time have you devoted to the issue of succession?**
A great deal 29.4%
Some, but not much 38.4%
Very little 23.0%
No time 7.9%

■ **Are there any attributes your successor will need that you feel you don't have?**
Yes 67.8%
No 29.4%

■ **What specific attributes do you have in mind?**
Financial skills 19.9%
Technical skills 14.5%
Marketing skills 11.9%

■ **What are your greatest accomplishments as chief executive?**
Company growth 20.0%
Building team spirit 18.6%
Restructuring 15.9%
Earnings growth 15.9%

■ **What have your greatest disappointments as chief executive been?**
Takes too long to make changes 12.6%
Earnings not up to expectations 8.5%
Personnel disappointments 7.2%

■ **Who is your management guru?**
No one 33.0%
Peter Drucker 22.5%
Tom Peters 6.9%

■ **In 1987, what is the most stressful situation you had to face?**
New owners 13.3%
Management changes 11.0%
Laying off personnel 6.7%

Some questions have been paraphrased. Percentages may not total 100 because of omitted responses or rounding off.

WHAT THEY'RE THINKING

U.S. COMPETITIVENESS

- "The sleeping giant is awakening and we still have a lot of raw materials."
- "Management styles will change. Restructuring is well on its way. Companies are more efficient and productive as a result."
- "We are losing technological leadership—importing new technologies rather than exporting them, thus losing market share."
- "The productivity of the Asian nations is just beginning, and they will be able to swamp the world with the goods that the United States generally produced for itself and the world."

THE CEO'S ROLE

- "I have to spend more time on public relations and dealing with lawsuits and state, local and federal regulations—leaving no time to market the product."
- "The job is much more political. The decision-making process must contain a higher degree of concern for the public's reaction."
- "There is much greater stress placed on performing for a group of shareholders that have a short-term view of the company."
- "There is increased attention to takeover threats and subsequent litigation, and I cannot address company growth."

DISAPPOINTMENTS

- "We are not at a competitive level in terms of technology."
- "Our earnings increase was not up to expectations."
- "I have been unable to motivate the team to their maximum potential."
- "We have been unable to get the government to release its stranglehold on our business."
- "I've made poor acquisition decisions. We're now disposing of them."
- "We're not more profitable."
- "People who turned out to be dishonest and disloyal."

heart and soul of the American business ethic. Alas, that is not exactly consistent with "down-sizing." Neither was the second-place "greatest accomplishment" response: "building employee team spirit."

Still, the cutbacks were made; business is not a game for sissies. For some flavor of the stress they feel, consider the response of one chief executive when asked what his "advice for his successor" would be: "This particular company is on a fine balancing point. Either it will make a lot of money or it will lose a lot. Be very careful—cost control is the most important factor here."

The chief executives also thought that the government could do more to help industry hone its competitive edge. In particular, 83 percent of these largely Republican CEOs think that the government isn't doing enough to stimulate research and development. They're not talking about government butting into the research process. Most specifically, 67 percent want tax incentives.

They also think the government (the SEC) should modify the rule requiring quarterly financial reports. "Change the reporting requirements," suggested one executive. "England has a six-month reporting cycle. In the Japanese culture, they think only on a long-term basis."

Similarly, chief executives believe that the government should make it cheaper for them to make new investment. Here is a typical observation: "The government should quit changing the rules so frequently—especially taxes . . . and there should be tax breaks to encourage investment."

There is a perception-reality angle in the otherwise clear, yet newsworthy, story in the survey's political material. The clarity can be summed up in one word: "Republican." The newsworthiness takes two: "Bob Dole."

Not surprisingly, most chief executives are Republicans. But the totals are monumental: Sixty-three percent of the sample is Republican; 28 percent classify themselves as independent. A mere handful—8 percent—are Democrats.

By contrast, a recent Yankelovich Clancy Shulman poll showed that among all Americans 23 percent were Republican, 35 percent Democrat, and 39 percent independent. Even among Americans with annual incomes in excess of $50,000, only 30 percent were Republicans. So it is fair to say that American chief executives are *very* Republican.

As might be expected, a solid plurality of chief executives (43 percent) think that Vice President Bush will be the next President, while about only half that number (23 percent) think Dole will be the winner. That's the conventional wisdom; Bush is the current front-runner, and the chief executives seem to be reflecting what the well-publicized public polls say.

Chief executives are a long way from Kemp-style, supply-side, conservative populism.

What is of far more interest is not who they think *will* be the next President, but who they *want* to be the next President. And that—contrary to the polls—is Robert Dole over George Bush. Now, Dole's margin over Bush (32 percent to 30 percent) is minimal and not statistically significant in a sample of this size. But flying in the face of two-to-one Bush-tilted public polls, it is of great political significance.

It means that Dole will have major support from a key Republican constituency group: the corporate world. Dole, accordingly, can expect a healthy share of what has been described as "the mother's milk of politics": money. If the chief executive is pro-Dole, it is reasonable to assume not only that Dole may get a personal contribution, but that he will also probably be well treated by that corporation's political action committee, and by the PAC representing the trade association that represents the chief executive's corporation.

All that is to the good for Dole. It can be very important in the months to come.

Of great interest: Jack Kemp draws only 2 percent of the vote in our survey. Our chief executives, it is fair to say, are a long way from Kemp-style, supply-side, conservative populism. Their admirers would call them "moderate, traditional Republicans." Their detractors might call them "country-club Republicans."

One caveat should be offered up here, however. Truth be told, none of us knows very much about how our political system works. And so, for humility's sake, remember that if one had to pick the "chief executives' candidate" in 1980, it probably would have been—John Connally.

In any event, these chief executives are not expecting a Democratic victory in 1988. They may not know more about national politics than thee or me—perception versus reality again—but by 41 percent to 30 percent they predict a Republican victory, with 27 percent calling it even as of now. When they are asked to name the candidate they expect to win, it gets even better for the GOP: Sixty-nine percent pick one of the Republican horses while 16 percent choose a Democrat.

The chief executives also harbor very Republican views about those devil Demo-

crats. When asked an open-ended question about the implications of a Democrat capturing the White House, they offered up the five hoary horsemen of the economic apocalypse: higher taxes, more government spending, business demoralization, more regulation and renewed inflation. Otherwise, no problem.

Predictably, 46 percent of the chief executives want the government to spend less on social programs. And 27 percent believe that the private sector can fill the gap; 11 percent were uncertain. Only 16 percent say that the government should spend more.

CEOs seem remarkably unconcerned about labor unions these days. Only 6 percent of them offered up "Strengthening of unions" as an implication of a Democratic victory. Only 10 percent think the power of labor unions will increase, while 51 percent expect it to decrease and 39 percent expect it to remain the same.

In this instance, perception may count as much as reality: The perception of weakness is a problem for any negotiator anywhere. In that sense, clearly, the unions have their work cut out for them.

The chief executives support surprisingly moderate political positions on many issues. About half (49 percent) favor a tax increase in order to lower the budget deficit. Of those who favor a tax increase, 49 percent would raise personal income taxes, 37 percent would raise corporate income taxes and 21 percent want a value-added tax. Energy, excise and use taxes were named less than 10 percent of the time.

In addition, there is a large amount of protectionist sentiment, at least if "retaliation" is the current code word for protectionism. Forty-nine percent support retaliation against countries that do not open their markets to U.S. goods; 44 percent are opposed and 7 percent are uncertain.

This sentiment, however, does not appear to be mindless foreigner-bashing. It is only protection. After all, the survey shows that 94 percent of the chief executives believe that American companies should work harder to learn from foreign industry, and 83 percent are against Congress limiting foreign investment in American companies.

The chief executives also take a moderate stance on the issue of business ethics. Far from rejecting accusations of a falloff in ethics in business, 89 percent think that criticism of business ethics is "totally justified" or "somewhat justified"; only 11 percent say the criticism is "totally unjustified" or that they are "uncertain."

'I've run into situations where handshakes don't mean much anymore.'

The passion behind these numbers can be seen in the executives' comments, which sometimes reflect personal experiences. Says one chief executive: "I've run into situations where handshakes don't mean much anymore." Another chief executive observes: "There is pressure put on heads of companies to produce a bottom line, so sometimes people will circumvent the law."

So what do we see? Current stress and future success among a new breed of chief executives who have already changed American business and will change it yet more in years to come. They've seen the specter of competition and have become lean and mean. They have changed their priorities. They are on their way.

But the chief executives have a specific personal gripe. These are can-do guys. And they are doing what they can. But, alas, corporations—like other human institutions—don't respond to immediate commands from can-do executives. That is frustrating. Listen to them list their "greatest disappointments": "The length of time needed to accomplish meaningful change in a large organization," says one. "It takes a long time to change the corporate culture," says another.

Chief executives, like the rest of us, are worried about the future their children will face. In their answers to the question, "What concerns you most about your children?" they reveal an inchoate fear of the future. They are worried about their children's economic well-being, despite the optimism they express in other parts of the survey. "How are they going to adjust to the fact that everyone eventually is going to have to accept a lower standard of living?" asks one chief executive.

Stress and success. It is a new story with new circumstances, and yet as old as American business itself. Our businessmen have faced structural and economic change before: Mass production and the Depression come most immediately to mind. By and large they responded with vigor and intelligence and built the premier economic machine in history. They think they can do it again.

Can they? We shall find out. A single survey such as this one can be very interesting. But changes over time often yield a fuller story, offering not only isolated facts but trends. It is the intent of BUSINESS MONTH to take this survey annually and publish the results. There is business revolution aborning. Stay in touch. ■

WHAT THEY'RE THINKING

SUPPORTING R&D

■ "There needs to be interaction between private industry and government-sponsored programs. Government should sponsor research and provide seed money to encourage private individuals to bring their research to fruition and to the marketplace."

■ "Dollars should be made available to university research labs—with the appropriate strings, so money is not pilfered away. The private sector should be brought in with the same caveat."

ETHICS

■ "There seems to have been a general loosening of moral standards in our society. This has crept into business and it needs to be stopped. American business is based on personal integrity. If we lose that, we're no better than a place like Mexico."

■ "I assume that only the big boys are reported, indicating there is even more below the surface that we don't know of."

■ "Business has failed to order its priorities, to give full appreciation to long-term interests. In so doing, it has become so obsessed with short-term results that it has been willing to employ unethical methods to provide substandard goods and deliver questionable services in an effort to maximize gains."

■ "We have a group of business people who feel any way to make money is justified. We must get them back to principles that provide quality products and fair prices."

■ "Too many corporations have lost sight of honesty in favor of profit and sales volume."

A SERVICE ECONOMY

■ "Man is both a physical and an intellectual and spiritual being. A service economy satisfies the intellectual; the physical requires production. We don't need great thoughts in an empty room."

■ "I don't think we will ever be a total service economy. The resurgence in manufacturing is under way."

■ "A service economy leaves a country without teeth."

■ "Information may be power, but real wealth is in production."

DANGER AND OPPORTUNITY

The world can get to the year 2000 in pretty good economic shape, but it won't be easy. There is technology to watch out for, not to mention myopia.

BY WALT W. ROSTOW

I am aware that chief executives live in a world where they bear an inescapable responsibility for profits and must therefore concern themselves with costs, markets and output next month and next year. In looking down the road to the year 2000, I shall have to consider more distant forces; but I shall try to say something along the way, and in the end, about the meaning of the picture I draw for the operating world of the chief executive officer.

Two reservations. First, John Maynard Keynes once wrote: "The inevitable never happens. It is the unexpected always." That proposition should remain firmly before the reader as well as the writer of an article that ventures to look a dozen years ahead.

Second, one of my conclusions as both a historian and a former public servant is that it is dangerous to separate the long run from the short run. The long run is powerfully shaped by what happens from day to day.

That proposition has a particular meaning right now. The United States is in the midst of a deeply rooted economic crisis caused by a sustained effort to live beyond its means. We have been running this country the way Mayor John Lindsay ran New York City. The symptoms of the crisis are known to us all: the federal deficit; the related but even more dangerous trade deficit; the shift from a surplus to a debtor nation; a greatly weakened dollar, which may help with the trade deficit but at the certain cost of our standard of living and increased inflationary pressure. Much depends on our wage discipline in handling that pressure. If we are to get the benefit in expanded exports from the devalued dollar, we shall have to avoid wage increases in excess of productivity increases.

In general, how things look in the year 2000 will be greatly affected by the manner, the timing and the degree of success with which we work our way out of this crisis. That process could leave us more unified at home and strengthened abroad, or it could lead to a corrosion of our domestic life, the fragmentation of our alliances across the Atlantic and Pacific and heightened tension with the Soviet Union. It is not difficult to construct the scenario either way.

The United States is in the midst of a deeply rooted economic crisis caused by a sustained effort to live beyond its means.

I shall build this article on the optimistic assumption that the United States will work its way out of the crisis in pretty good style. Not only is that assumption necessary if I am to focus on the long-run forces at work, but I believe that it is probably correct. Despite the fact that neither national political party has yet faced up fully to the challenges posed by our current situation, I believe, on balance and without naïveté, that our great continental society remains vital and resilient. My first conclusion is that this underlying resilience will assert itself politically before the year 2000, and that a new phase in our national political life will be installed by that time.

I hold this temperately optimistic view not out of simple faith but because the politics of partnership can be observed alive and well at the state and local levels. There are, of course, states and cities where politics and social life are dominated by tension and raw confrontation. But the dominant trend outside Washington is toward cooperation in an effort to solve problems that, it is widely appreciated, can be solved only by cooperation.

This process can be perceived in relations between business and labor as both face the reality of brutal international competition and the consequent choice of either closing down the plant or cutting costs and raising productivity. The reconstruction of the centers of many American cities has been the product of even more complex partnerships embracing the private sector (including banks, insurance companies and pension funds) and state and local government, with the universities and labor often lending a hand.

Most important of all have been the partnerships between the universities and the private sector in generating and diffusing new technologies, with state and local governments and financial institutions sometimes getting into the act with new forms of venture capital. There are now some 50 high-tech concentrations in the United States built by such partnerships. Not all will flourish, but each repre-

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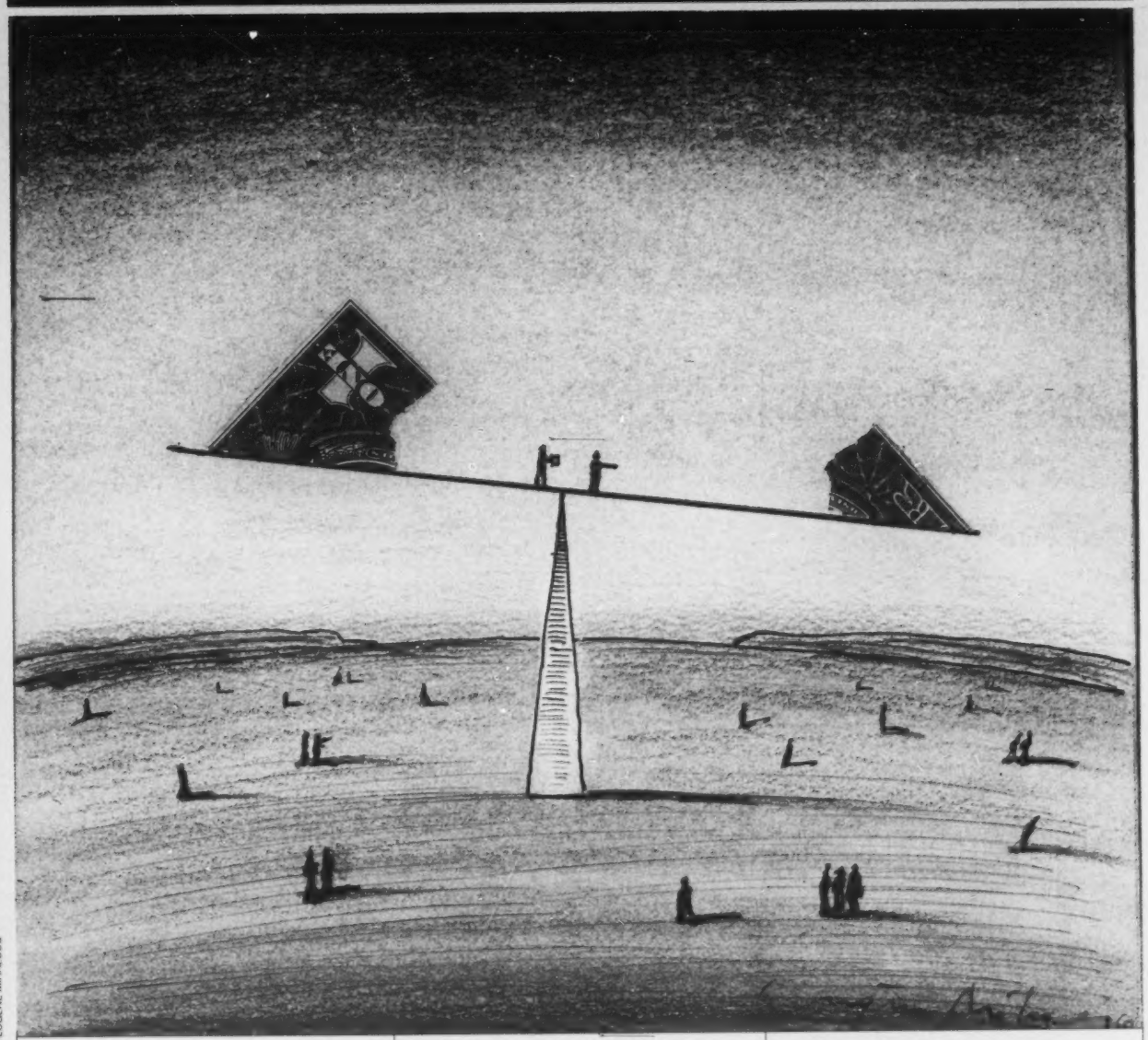


EUGENE MIHAESCO

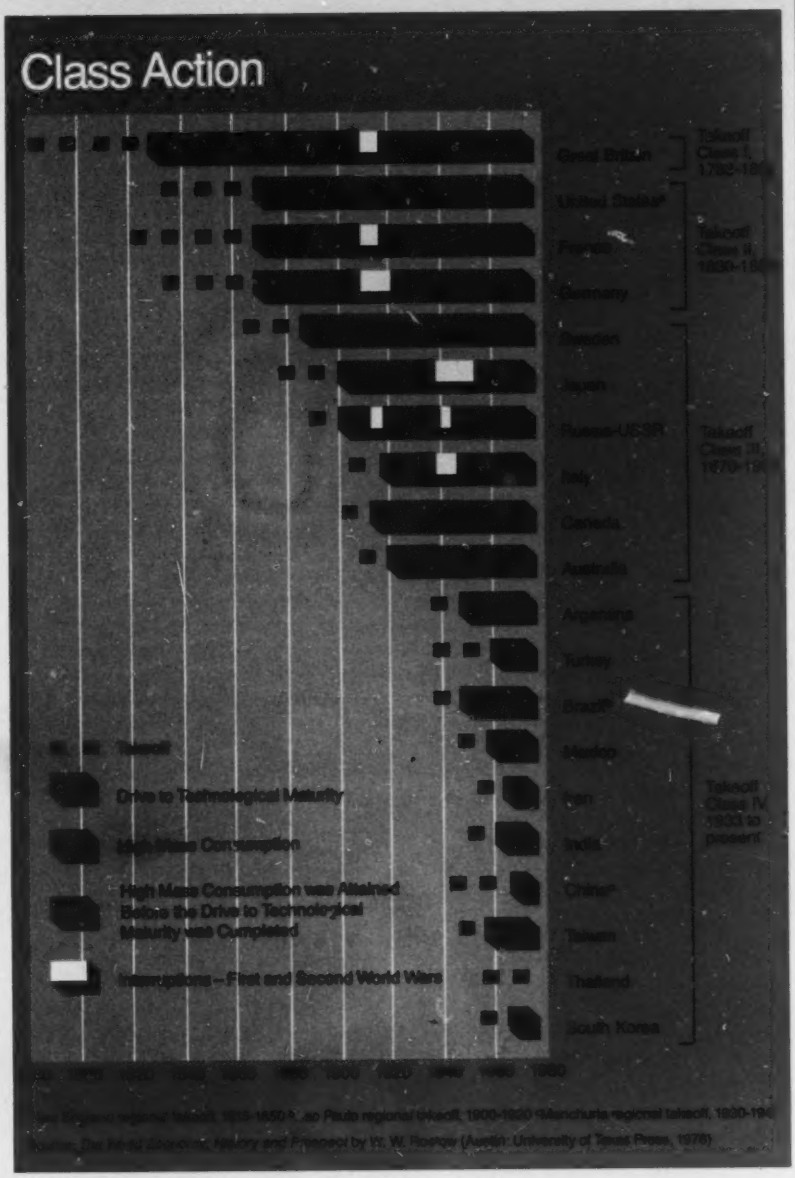
sents a form of cooperation not to be found in either economics or government textbooks. And I rate as one of the most powerful positive forces in the country the intense competition among the states to attract and expand high-tech firms.

That competition has carried with it a renewed realization that first-rate educational institutions are vital to the bottom line. I say "renewed" because land-grant colleges were built on that realization starting more than 120 years ago, and the tradition of collaboration they inaugurated between the universities and the private sector represents a major advantage for the United States relative to most of the rest of the world at a time of technological revolution.

In any case, I believe that, as often in American history, developments in the states now herald the shape of national politics, and that we will see the politics of partnership and cooperation dominant at the national level by the year 2000—probably well before.

I believe this will happen not because the American people will experience an infusion of brotherly love or a reduction in our particular national dose of original sin. I believe that the process is under way because we remain a society with a will to survive and the energy to grapple with the problems that the flow of history places before us. We will continue to behave at home as we often (and dangerously) have behaved on the world scene—in conformity with Samuel Johnson's 18th-century dictum: "Depend upon it, sir, when a man knows he is to be hanged in a fortnight, it concentrates his mind wonderfully." The gallows in this case are the shift in the Atlantic world from the politics of dividing an expanding pie to the politics of dealing with a protracted competitive test of our viability as nation-states.

For more than a century now—since, say, Bismarck outflanked the German Socialists with the first modern social-welfare legislation—the politics of the Western world have focused (like the recent budget debates in Washington) on the division of a nation's resources between social-welfare outlays (and income redistribution in favor of the disadvantaged) and the claims of the private sector. Occasionally, allocations to the military entered what was essentially a running zero-sum debate, softened by the underlying assumption that the pie was more or less automatically expanding. Social-welfare



outlays rose from 4 percent in 1913 (an average for the United States, the United Kingdom and Germany) to about 14 percent for the major advanced industrial countries by 1960 and 24 percent by the mid-1970s.

The central question before the United States and the Western world generally is whether the resources to be divided will continue to increase. The question arises because of two great historical developments: first, the emergence around the mid-1970s of the technological revolution embracing microelectronics, genetic engineering, a new batch of manufactured industrial materials and the increasingly ubiquitous laser; second, the rise toward technological competence, over the full spectrum of possibilities, of the major countries of Latin America, a substantial group of countries in the Pacific and, most significant of all, China and India.

Each of these developments—like the two Chinese characters for the word *crisis*—is both a danger and an opportunity.

The new technological possibilities represent the fourth such concentration over the past two centuries. The first, which came on stage in Britain in the 1780s, consisted of new textile machinery, the fabrication of good iron with coke rather than charcoal and Watt's improved steam engine. The second, the steam railroad, emerged in a big way in the 1840s and led to the manufacture of cheap steel by the 1870s. The third, occurring around the turn of the century, embraced electricity, the internal combustion engine and a batch of new chemicals.

As opposed to the earlier technological revolutions, this one is marked by close links to areas of basic science that are themselves evolving in a revolutionary way. Business leaders will have to operate in an environment of extremely rapid change. Our business schools and textbooks on administration are not geared to, say, an obsolescence rate of 30 percent a year.

The danger posed by the new technological revolution can, then, be quite precisely defined. It does not lie in the likelihood that we will be outstripped by others in the pace at which we generate new technologies. It lies in the fact that in certain key sectors of the economy, neither management nor labor has fully accepted the proposition that both profits and real wages—indeed, economic survival—now depend on the pace of technological change.

We were and remain quite competitive in three sectors that, in effect, arose out of laboratories: electronics, chemicals and aerospace. We fell dangerously behind in steel, motor vehicles, machine tools and textiles, where the links between management and research and development were weak. Henry Ford's creation of the moving assembly line was a major act of creative engineering. But it did not arise from basic science; it was built on direct analogy to a slaughterhouse. Henry Ford wouldn't have been caught dead talking to a professor. We still need engineering imagination, but we need a great deal more.

Certainly the most confident of my predictions about the year 2000 is that successful American leaders will have to understand how to handle the links between science, invention, management and the work force. This means that labor retraining will be a major endless task. Put another way, whether we face danger or opportunity hinges on the pace at which we efficiently apply the new technologies across the whole face of the economy.

The importance of this task of business leadership is heightened by the second challenge we confront. The chart on this page shows the approximate historical timing of the entrance of four "graduating classes" (of nations) into what I call takeoff and what the economist Simon Kuznets called the beginning of modern economic growth. Most of the fourth class (which includes other countries of Latin America and the Middle East besides those named) is now in what I call the drive to technological maturity. That is

the stage at which a society's capacity to absorb new technologies radically expands, its growth rate reaches its maximum and it learns to produce competitively the full range of modern manufactures. In the course of that process, it becomes at once an enlarged market for the technologically sophisticated exports of advanced industrial countries and a competitor in sectors of lesser sophistication.

Right now our major anxiety is focused on the trade surpluses built up mainly at our expense by Japan and West Germany. But, as the Japanese are fully aware, their primacy in the manufacture of motor vehicles and durable consumer goods is already being undermined by South Korea, Taiwan and other aspiring countries of the Pacific Basin, while U.S. airlines are using Brazilian-manufactured aircraft in increasing numbers on feeder lines. Quite conscious of the new trend, Japan is using its surplus now to invest abroad, so that its earnings from dividends and profits can support its balance of payments as the United States recovers its poise and the fourth graduating class moves on to technological maturity.

For this process to proceed to full term, evidently, the Latin American countries will have to work their way out of their debt problems (with the help of the world community), and the Middle East will have to at last find stable peace. But what about India and China? Do these two vast countries with low levels of income per capita really belong among the likely challengers in this round?

I believe they do. They may be among the poorest of the developing countries, but they are also among the technologically most sophisticated. They can already produce atomic weapons, rockets, aircraft, motor vehicles and machine tools. At a talk I gave in Hong Kong in 1969, I made what seemed to local listeners to be a bad joke. When asked about the turning over of the city to China in the 1990s, I said I thought it would be a close thing whether China took over Hong Kong or Hong Kong took over China. Right now, the south of China is alive with factories manufacturing all manner of consumer goods under Hong Kong's tutelage. Hong Kong (and Taiwan) will leave a deep imprint on Chinese history.

Whether we face danger or opportunity hinges on the pace at which we efficiently apply the new technologies across the economy.

But the deeper reason for taking the fourth graduating class, including India and China, seriously lies in the educational revolution in these countries (see table below). As the current situation in the Soviet Union suggests, it takes more than a critical mass of educated men and women to absorb sophisticated modern technology efficiently.

It also requires a system that provides strong incentives for technological change plus institutional arrangements that make the scientist, engineer, businessman and worker an effective interacting team. It would be most unwise for American business to assume that the fourth graduating class, despite the current vicissitudes of a good many of its members, will not fulfill those conditions over the next generation. The Chinese universities, for example, were gravely set back by the Cultural Revolution. But surely this loss will be fully made up by the year 2000.

The problem posed by this prospect is not new. Academics may argue legitimately as to who deserves the title of the first modern economist, but the name of David Hume would have to appear on any list of contestants. His essays in economics have been called "the Cradle of Political Economy," and one of Adam Smith's major biographers said: "But for Hume, Smith could never have been."

Writing in 1758, Hume asked what would happen to front-runners that first developed the skills of large-scale trade—the specializations that go with the exploitation of comparative advantage, including improvement in "the mechanic arts"—when their success stirred a "fermentation" in less advanced societies, which proceeded to imitate the more advanced but with the advantage of lower wage rates. His answer, in response to the mercantilist instinct to throttle the latecomers in the cradle, was that a front-runner could enjoy the advantages of expanded two-way trade with the aspiring country if it maintained an open trading system, but that to sustain the inevitably intensified competition it would have to remain "industrious and civilized."

Hume's summation: "Nor needs any state entertain apprehensions that their neighbors will improve to such a degree in every art and manufacture as to have no demand from them. Nature, by giving a diversity of geniuses, climates and soils to different nations, has secured their mutual intercourse and commerce, as long as they all remain industrious and civilized. Nay, the more the arts increase in any state, the more will be its demands from its industrious neighbors."

What, then, are the implications of future developments for American business in its dealings with Japan, Western Europe, the Soviet Union and the developing nations?

There is a good deal of talk about a loosening of U.S. ties across the Atlantic and Pacific. And there is some basis for this view: for example, strong isolationist impulses still alive in American political life; chronic anti-Americanism in Western Europe; the self-inflicted wounds on the international economic position of the United States since 1981; and, whether justified or not, less fear on both sides of the Atlantic of a Soviet Union now preoccupied with the restructuring of its domestic life and international arrangements. And, as I noted at the beginning, it is not difficult to

CLASSROOM ACTION

	Number enrolled in secondary school as percentage of age group		Number enrolled in higher education as percentage of population age 20 to 24	
	1960	1982	1960	1982
Low-Income Economies*	15%	30%	3%	4%
India	20	30	5	9
China	—	35	—	1
Lower-Middle-Income Economies*	10	35	4	10
Upper-Middle-Income Economies*	20	51	5	14
South Korea	27	89	6	24
Brazil	11	32	2	12
Mexico	11	54	4	15
Argentina	23	59	14	25
Hong Kong	20	67	5	11
Singapore	32	66	10	11
Industrial-Market Economies*	64	85	18	37

Source: *World Bank Development Report 1984* and *1986*.
*Percentages are averages.

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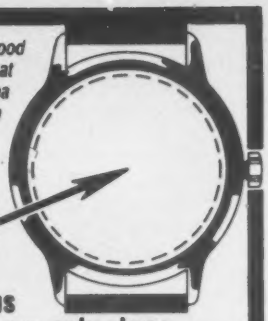

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write a scenario of fragmentation and international chaos.

But I am inclined to think it a bit more probable that the ties across the Atlantic and Pacific will remain for certain abiding reasons and that they will intensify for certain new ones. The abiding reasons are the deeply rooted common interests of Western Europe and the United States in maintaining a balance of power in Europe, and of Japan, China and the United States in maintaining a balance of power in Asia. In a nuclear age, this requires the presence of substantial U.S. conventional military force in both regions. Most Americans understand that there is no security for us in isolationism, although it is quite possible that a more united Europe and Japan will assume a larger share of common tasks by the year 2000.

These transoceanic ties may well intensify for economic and technological reasons. Every television viewer in the United States is now aware of the heightened financial interdependencies dramatized since October 19 by the intimate interaction of capital markets in New York, Tokyo, Hong Kong, Sydney and London.

The high-tech interdependencies are not yet as well understood. Beneath the surface—and the reality—of technological competition, a rather subtle fact is asserting itself: Each of the major new areas of technology is so diversified that lines of comparative advantage are emerging within each. These are leading to expanding levels of trade in high-tech products and an extraordinary network of binational and multinational high-tech ventures. I have no doubt that sufficiently unwise policies could once again fragment and impoverish the world economy. But it is a harder world to pull apart than that of the 1930s.

Finally, the coming of the Soviet Union into the central affairs of the world economy, and the foreseeable emergence of India, China, Brazil and others, is likely to heighten rather than dilute the common interests of the industrialized world.

So far as the Pacific is concerned, this tendency will be strengthened if the governments of the region, without interfering with the extraordinary private trade and payments network now operating, set up a Pacific Basin intergovernmental organization embracing the region's advanced industrial and developing countries to deal with an increasingly recognized group of supplementary problems and possibilities.

The Soviet Union is obviously undergoing its most profound changes since Lenin seized power in 1917. Gorbachev may or may not succeed in his current effort to restructure Soviet society, but the Soviet Union, like the United States, cannot escape from the reality of the current technological revolution or from the emergence of the new group of technologically competent industrial powers. To deal with these phenomena it must overcome the fact that its noncompetitive system is poorly geared to the task of absorbing new technologies. It must face the fact that neither it nor any other nation is capable of controlling a world of increasingly diffuse power and nationalist assertiveness, and it must do so at a time when awareness of the virtues of competitive markets and aspiration for political democracy are rising in many parts of the world, including the Soviet empire.

Gorbachev appears to understand all this. He is quite explicit that his policies at home are required to prevent the Soviet Union from losing its status as a superpower, and he has concluded that the Soviet economy cannot be fully modernized unless it joins the world economy and becomes internationally competitive. That is why the Soviet Union is in the process of joining the General Agreement on Tariffs and Trade, seeking observer status in the World Bank and the International Monetary Fund, beginning joint ventures, planning a politically precarious price reform and talking, at least, about a future convertible ruble.

As for CEOs, they had better learn more about science and technology and administering in an environment of rapid obsolescence.

I certainly cannot predict precisely where this quite revolutionary adjustment to reality will stand in the year 2000. But in one way or another these are the directions in which powerful historical forces are pushing the Soviet Union. And for an American chief executive, the opportunity for mutually advantageous business arrangements is likely to expand gradually, with many headaches along the way. Should the Soviet Union prove capable of restructuring its political, social and economic institutions in such a way as to permit its talented pool of scientists and engineers to absorb efficiently the large backlog of unapplied technologies available, it may experience a surge of growth like that of Japan after 1955. But slower, uneven progress appears more likely down to the year 2000.

As I argued in the Spring 1987 issue of

Foreign Affairs ("On Ending the Cold War"), there are good reasons in the emerging world environment for the cold war as we have known it for more than 40 years to wither away; but a poor performance by the United States at home and abroad could unnecessarily revive it.

After a decade of not-so-benign neglect, and another of narrow concentration on Central America, it is time to build a new relationship with Latin America. The essential instruments already exist: the Organization of American States and the Inter-American Development Bank. But the relationship cannot be an exercise in nostalgia for the Alliance of Progress; neither Latin America nor the United States is as it was when President Kennedy made his Alliance speech in March 1961. Latin America is a more mature if hard-pressed region, with wider global interests.

But we share problems and possibilities on which a new agenda could be built (quite aside from a definitive settlement of the debt question): the new technologies, environmental protection, patient joint efforts on some of the hard cases (Bolivia and Haiti, for example) and combined support for subregional efforts in the Caribbean and Central America. There is every reason to revive a dignified dialogue among partners with a Latin America moving toward technological maturity and struggling to sustain democracies consistent with a humane culture.

We will, of course, face other important problems down to the year 2000—problems in the Middle East and Africa and, quite possibly, another phase of relative energy shortage. And Keynes will be at least partially right; unexpected things will certainly happen.

But my central conclusion is quite simple. If we make good my optimistic assumption and face the two challenging revolutions—new technology and the maturation of a good many third-world countries—in an "industrious and civilized" manner, we can go into the new century in a more prosperous and peaceful world than the one we know. As for CEOs, they had better learn more about science and technology and administering in an environment of rapid obsolescence. And an extra foreign language or two won't hurt, because the interaction between our economy and others will surely intensify.

The greatest task of CEOs is not to guess or await the outcome but to play a vigorous role in making the optimistic assumption come true. And this means working much more closely with universities, the labor force, the political process—in short, with the whole community of which they are a critical part. ■

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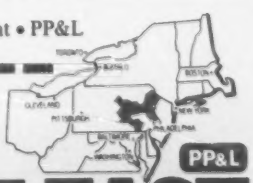

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